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SUBJECT: SERBIA: GAZPROM NIS PURCHASE CONTINUES TO DIVIDE SERBIAN
GOVERNMENT

Ref: A) Belgrade 1243 B) Belgrade 1222

SUMMARY

1 (SBU) With negotiations on the sale of Serbian state oil firm NIS nearing completion PM Cvetkovic will replace DPM Dinkic as head of the negotiating team. Dinkic publicly distanced himself from the NIS deal, but reiterated that his G-17 party would remain in the government coalition. Russian pressure to conclude the deal increased in the wake of the December 5 visit by Gazprom head Alexei Miller. The government move to put a senior Ministry of Foreign Affairs official in charge of the technical negotiations highlighted the increasingly political focus of the NIS deal. End Summary.

DPM DINKIC OUT - PM CVETKOVIC IN

12. (SBU) With the pressure on to complete agreements to finalize the key components of the energy framework agreement with Russia, the Serbian government shuffled its negotiating team. At the December 11 Serbian government meeting Deputy Prime Minister and Economy Minister Dinkic (G-17) stepped down as head of the negotiating team for the energy framework agreement with Russia. Dinkic resigned as head of the team because the government did not support his proposals that would have limited Gazprom's purchase of state oil firm NIS until after further progress on the South Stream gas pipeline project. Dinkic was opposed to many specifics of the energy framework agreement since its signature (ref B) and has struggled to find ways to change the deal to provide greater benefits to Serbia. Dinkic's G-17 colleagues on the negotiating team, including Nebojsa Ciric, State Secretary in the Economy Ministry responsible for privatization who headed the technical negotiations, and Branislav Zec from the Privatization Agency also left the negotiating team.

13. (SBU) Prime Minister Cvetkovic (DS) replaced Dinkic as the formal head of the negotiation team. This appointment highlighted the importance of the overall agreement to the Serbian government. Interestingly, Ciric told the press on December 14 that his role as head of the technical negotiation team would be taken over by Ministry of Foreign Affairs Chief of Staff Borko Stefanovic. Stefanovic has no experience with energy issues and his appointment as the key interlocutor in the negotiations highlights the political context for the overall agreement and the importance that it has for President Tadic and his inner circle. Minister of Energy Skundric (SPS) defended the NIS sale publicly and in parliament, but the Ministry of Energy does not have the lead in the negotiations. Stefanovic's appointment should also be seen in the context of Foreign Minister Jeremic's public statement on December 14 that, "I believe that the bilateral relations with the Russian Federation will be the most significant bilateral relations this country will have in the next several decades."

Russian Visit Brings Pressure

¶4. (SBU) Gazprom head Alexei Miller's December 5 visit to Belgrade ratcheted up the pressure on President Tadic and the Serbian government to finalize a contract on the sale of NIS, while leaving the key issues regarding the South Stream gas pipeline and the Banatski Dvor gas storage facility for the future. Gazprom and Russian officials continue to press for an agreement by December 20, though the framework agreement says only that detailed contracts should be signed by the end of the year.

¶5. (SBU) Russian pressure on Serbia to conclude the NIS contract within the energy framework agreement is mostly political, but is also economic. Serbia depends on natural gas imports for more than 90% of its natural gas. While gas accounts for only about 15% of total energy use in Serbia, the country cannot survive without gas from Gazprom. Serbia negotiates gas purchase contracts through the murky Gazprom-controlled firm Jugorosgaz each year so is very vulnerable to Russia's new price demands. At the same time, with a monopoly on gasoline production in Serbia, NIS topped the local magazine Ekonomist's list of Serbia's most profitable companies in ¶2007. The firm has been a key source of revenue and political patronage for the government.

Split Over the Deal, but Government Stable

¶6. (SBU) Despite Dinkic's very public opposition to the NIS sale in its current form, Dinkic told the Ambassador on December 10 that he would not bring down the government over the sale. At the same time, he assured us that the government was stable and that the Democratic Party leadership was aware of his planned actions.

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Tomislav Damjanovic, President of the G-17 Executive Board, told us on December 11 that the party wanted to make clear that G-17 was not responsible for this deal and feared the public would look back two years from now when the gas pipeline deal evaporated and blame Dinkic for the failure (ref A). Dinkic did manage to pressure the government into taking any deal signed for NIS to Parliament for ratification, but even without G-17 support a deal would likely pass as some opposition parties would support the sale. Progressive Party (SNS) head Nikolic said publicly that SNS would support the sale of NIS in the parliament, but then would call for new elections.

¶7. (SBU) Coalition partner Nenad Canak's League of Social Democrats of Vojvodina also criticized the NIS sale at their party congress on December 14. Canak said that he opposed the deal, but would continue to support the government coalition.

Contract Details Still an Issue

¶8. (SBU) In a conversation with us on December 15 DS Party energy expert Aleksandar Cirilovic told us that so far there was no plan for a Serbian government official to travel to Moscow to sign a NIS agreement this week, but that negotiations continued on the deal. Several sources close to the negotiations have told us that Gazprom had rejected Serbian proposals to provide additional guarantees regarding Gazprom's planned investments in NIS and environmental upgrades. The required phase-out of NIS's gasoline production monopoly was also a significant unresolved issue.

COMMENT

¶7. (SBU) The NIS sale is political, money is only discussed tangentially, the emphasis is on Serbia's keeping its word with Russia. The move to put PM Cvetkovic and FM Jeremic confidant Stefanovic in charge of closing the deal highlights the importance of this agreement to Tadic's DS. Jeremic's comments regarding the importance of Russia showed the government's true interest in the deal - a misguided and sentimental attempt to balance east and west. Gazprom is holding firm against detailed commitments in the NIS

contract or additional provisions to further link the NIS sale to the South Stream gas pipeline. While the government initially sold this deal to the Serbian public as a package to help make Serbia a player in distributing gas in the region through South Stream, the "special relationship" with Moscow is now the key headline. Most people here expect the NIS deal to go forward, but the political and economic ramifications of the deal will remain a legacy of Tadic's administration. End Comment.

MUNTER